Harbor Diversified International All Cap Fund

Manager Commentary
As of 06/30/2019

Subadviser: Marathon Asset Management LLP *(Since 11/02/2015)*
Portfolio Managers: Neil M. Ostrer, Charles Carter, Nick Longhurst, William J. Arah, Simon Somerville, Michael Nickson, CFA, Michael Godfrey, CFA, David Cull, CFA, Robert Anstey, CFA

2nd Quarter, 2019

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Marathon Asset Management LLP (Marathon-London)

Market in Review

The U.S. Federal Reserve continued its dovish tone in the second quarter of 2019, expressing concern over the health of the global economy and bolstering hopes for rate cuts in July. The European Central Bank set a similar tone, citing rising protectionism as one factor in its decision to postpone any further rate increases until at least midway through 2020. This accommodative tenor emanating from policymakers, combined with a recent truce in the ongoing trade war between the U.S. and China, drove positive equity market momentum during the quarter and led to a more constructive short-term outlook for most equity investors (though a rising chorus of pundits has been questioning how much further this "bull market run" can last). Conversely, the resignation of the U.K.'s prime minister added to uncertainty around Brexit and led to a slight increase in volatility for the British Pound and U.K. capital markets.

Regardless, our outlook has not changed as a result of these macro-level events, and, instead, our investment analysis remains firmly focused on bottom-up fundamental stock selection.

Portfolio Performance

In the second quarter of 2019, the Harbor Diversified International All Cap Fund (Institutional Class) returned 3.49%, outperforming its benchmark, the MSCI All Country World Ex. U.S. Index, which returned 2.98%.

The Harbor Diversified International All Cap Fund ("Fund") outperformed its benchmark during the second quarter due to stock selection. More specifically, stock selection within emerging markets (in particular, Brazil) and Europe (particularly in the U.K. and France) exerted the largest positive influences on relative performance. Stock selection within Japan and Canada also contributed. Conversely, the largest negative influences on relative performance came from stock selection within the Pacific ex-Japan region. An underweight to Australia was a key detractor, and not owning the large Australian bank constituents in particular had a negative impact. Although this is stock specific, political factors were at play as bank shares rose after the ruling Conservative party's surprise victory in the general election helped reduce the threat of financial industry reform that had been promised by the opposition.

From a sector standpoint, stock selection within Consumer Discretionary, Materials, Information Technology and Health Care contributed most significantly to relative returns. Conversely, stock selection in Financials and the Fund's residual cash position weighed on relative returns.

Contributors and Detractors

Alpargatas, a Brazilian apparel group that owns the Havaianas footwear brand, benefited relative performance. The company reported strong revenue growth in all business areas in its home market and boosted profits further through expansion of its international operations. Eurobank Ergasias, an Athens-based bank, acquired Grivalia during the quarter, which has had the effect of improving the bank's capital ratios, and the acquisition was well received by investors. MRV Engenharia, a Brazilian real estate company, continued to reap the benefit of the best first-quarter earnings report in its corporate history.

In contrast, Chinese technology firm Baidu hindered relative performance. The company reported its first quarterly loss during the quarter, citing the ongoing trade war and increased domestic scrutiny as reasons for its weaker earnings guidance. Bunzl, a U.K.-based distribution and supplies group, recently announced revised growth prospects for the year, citing a weaker macroeconomic backdrop. Not owning Russian oil giant Gazprom hurt relative returns as its shares surged to a decade-high level after the company announced plans to raise its dividend payouts to shareholders.

Buys and Sells

Shares of German meal-kit provider HelloFresh were added to the Fund's portfolio. The company is a leading player in the meal-kit market and has been gaining significant market share in the U.S., where it generates over half of its revenue. Meal-kit demand has been growing steadily, and a period of consolidation in the market has seen the number of competitors more than halved. We believe HelloFresh is positioned strongly to benefit from this growth, having overtaken its largest competitor in the U.S.

In the emerging markets sleeve of the Fund's portfolio, ocean harvesting business Oceana Group was sold during the quarter. The position was spun out of another portfolio holding, Tiger Brands, and the company's outlook from a capital cycle perspective did not look particularly supportive to us.

Outlook

No new themes or tilts were introduced into the portfolio during the quarter. Rather than attempt to predict macro geopolitical and economic forces and their influence on market conditions going forward, we remain focused on bottom-up stock selection with an aim to invest in businesses where we believe the supply-side capital cycle dynamics and capital allocation decisions by management remain favorable or are improving.

That said, as a general observation, it continues to appear to us that market participants (broadly speaking) have convinced themselves that monetary policy accommodation will continue indefinitely and do so without unintended negative repercussions. We believe, however, that monetary policy normalization must have its day at some point. Debt levels have ballooned as a consequence of historically low interest rates and, at current valuation levels and on peak profit margins with little in the way of upside earnings growth during the last few quarters, we believe equity markets are subject to downside risks and geopolitical uncertainties. Thus, while we are taking advantage of price dislocations and establishing new positions when relative valuations present an opportunity to do so, the Fund in aggregate remains focused on downside protection with a "quality" tilt (i.e., strong balance sheets, stable free-cash-flow, sound competitive positioning, etc.) from a characteristics standpoint.

Distinctively, emerging markets (collectively) present an attractive opportunity set over the medium term, in our view, given the likelihood of investors continuing to recalibrate growth expectations, pull capital from those markets as a result, and, in turn, force managers operating businesses in those markets to allocate capital more efficiently.

Harbor Funds

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ECONOMIC SECTORS

	% of Net Assets
Industrials	20.39
Financials	17.94
Consumer Discretionary	13.33
Consumer Staples	11.61
Communication Services	8.16
Information Technology	7.81
Health Care	7.11
Materials	7.09
Energy	3.45
Real Estate	0.50
Utilities	0.38

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Samsung Electronics Co. Ltd.	1.21
2. Taiwan Semiconductor Manufacturing Co	1.06
3. Fairfax Financial Holdings Ltd.	1.06
4. Intertek Group plc	0.93
5. Coloplast AS	0.90
6. Eurobank Ergasias SA	0.86
7. Roche Holding AG	0.84
8. Vestas Wind Systems AS	0.81
9. Compass Group plc	0.79
10. Rightmove plc	0.77

ADDITIONAL HOLDINGS

Company Name	% of Net Assets
Alpargatas SA	0.71
Bunzl plc	0.46
Baidu Inc. ADR	0.45
Mrv Engenharia E Participacoes SA Baidu	0.38
Tiger Brands Ltd.	0.37
HelloFresh SE	0.16
Gazprom	0.00
Grivalia Properties	0.00
Oceana Group	0.00

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (11/02/2015)	Expense Ratios Net	Expense Ratios Gross
Harbor Diversified International All Cap Fund - *INST*	3.49%	1.60%	N/A	N/A	5.09%	0.80%	0.99%
MSCI All Country World Ex. US (ND) Index	2.98%	1.29%	N/A	N/A	6.17%		

TOP TEN COUNTRIES

Country	% of Net Assets
United Kingdom	18.71
Japan	15.47
Canada	7.09
France	4.76
Australia	4.18
Germany	4.03
South Korea	3.97
Denmark	3.68
Switzerland	3.63
Brazil	3.15

Performance data shown represents past performance and is no guarantee of future results. Past performance is net of management fees and expenses and reflects reinvested dividends and distributions. Past performance reflects the beneficial effect of any expense waivers or reimbursements, without which returns would have been lower. Investment returns and principal value will fluctuate and when redeemed may be worth more or less than their original cost. Returns for periods less than one year are not annualized. Current performance may be higher or lower and is available through the most recent month end at harborfunds.com or by calling 800-422-1050.

This information should not be considered as a recommendation to purchase or sell a particular security. The holdings or countries mentioned may change at any time and may not represent current or future investments.

Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expenses. The net expense ratios for this fund are subject to an expense limitation agreement, excluding interest expense, if any, through 02/29/2020.

The MSCI All Country World Ex. US (ND) Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

The subadviser's assessment of the capital cycle for a particular industry or company may be incorrect. Investing in companies at inopportune phases of the capital cycle can result in the Fund purchasing company stock at pricing levels that are higher than the market dynamics would support and therefore subject the Fund to greater risk that the stock price would decline rather than increase over time.

Investing in international and emerging markets poses special risks, including potentially greater price volatility due to social, political and economic factors, as well as currency exchange rate fluctuations. These risks are more severe for securities of issuers in emerging market regions.

Stocks of small and mid cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

At times, a value investing style may be out of favor with investors which could cause value securities to underperform growth or other equity securities.

Stock markets are volatile and equity values can decline significantly in response to adverse issuer, political, regulatory, market and economic conditions.

Views expressed herein are drawn from commentary provided to Harbor by the subadviser, Marathon Asset Management LLP (Marathon-London), and may not be reflective of their current opinions or future actions, are subject to change without prior notice, and should not be considered investment advice.

Investors should carefully consider the investment objectives, risks, charges and expenses of a Harbor fund before investing. A summary prospectus or prospectus for this and other information is available at harborfunds.com or by calling 800-422-1050. Read it carefully before investing.

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